

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 AID-05 CIAE-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 H-02

NSC-05 SS-15 STR-04 CEA-01 /128 W
----- 001620

R 091817Z APR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0676

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 05602

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: PRESS COMMENT ON THE BUDGET

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REF: (A) LONDON 5317; (B) LONDON 5318

1. THE IMMEDIATE REACTION TO MR. HEALEY'S BUDGET (REF A AND B) SHARPLY FOCUSSED ON THE IMPLICATIONS OF THE OFFER OF A TAX CUT IN RETURN FOR UNION ACCEPTANCE OF A 3 PER CENT WAGE NORM. MOST OF THE PRESS. BOTH QUALITY AND POPULAR, TOOK THE POSITION THAT THE GOVERNMENT'S PLOY MOVED BRITAIN SOME DISTANCE DOWN THE ROAD TO A CORPORATE STATE BY, IN EFFECT, GIVING THE FINAL SAY ON A POLICY WHICH AFFECTS THE ENTIRE POPULATION TO A POWERFUL MINORITY. AS A RESULT, SOME OBSERVERS SAY PARLIAMENT IS REDUCED TO THE POSITION OF A RUBBER STAMP, RATIFYING A DECISION MADE ELSEWHERE. OTHERS, LESS CRITICAL, CONSIDER IT A FAIR REFLECTION OF THE UNDERLYING POWER STRUCTURE AND ECONOMIC AND POLITICAL REALITIES

2. THE REACTION OF ECONOMIC COMMENTATORS ALSO DEALT WITH THE CONDITIONAL NATURE OF THE TAX CONCESSIONS. HOWEVER, THE EMPHASIS WAS PRIMARILY ON THEIR IMPACT ON THE SIZE OF THE PUBLIC SECTOR BORROWING REQUIREMENT. THERE WAS GENERAL AGREEMENT THAT THE BALANCED PACKAGE OF INDIRECT TAX INCREASES, WITH OFFSETTING CUTS IN THE VAT AND HIGHER ALLOWANCES FOR THE ELDERLY AND THE YOUNG, WHICH FORMED THE UNCONDITIONAL PART OF MR. HEALEY'S TAX POLICY COULD RESULT IN A CONTRACTION IN REAL TERMS OF OVERALL GOVERNMENT CLAIMS ON RESOURCES. SUCH AN OUTCOME DEPENDED ON THE ACHIEVEMENT 3.5 PERCENT RATE OF GROWTH OVER THE NEXT 12 MONTHS ANTICIPATED BY THE CHANCELLOR.

3. HOWEVER, COMMENTATORS SUCH AS THE TIMES' PETER JAY AND THE FINANCIAL TIMES' SAMUEL BRITTAN, WITH STRONG MONETARIST LEANINGS, WERE CONCERNED THAT IF THE CONDITIONAL TAX CONCESSIONS OF 930 MILLION POUNDS WERE TO BE GRANTED. THE BUDGET IMPACT WOULD SHIFT FROM ONE OF MILD DEFLATION TO ONE OF MILD STIMULATION MAKING MOVEMENT OF RESOURCES INTO EXPORT AND INVESTMENT MORE DIFFICULT. THIS WOULD INCREASE THE LIKELIHOOD OF EITHER A RENEWAL OF MORE RAPID INFLATION OR AN INCREASE IN INTEREST RATES WHICH WOULD DISCOURAGE NEW INVESTMENT IN THE EARLY STAGES OF THE RECOVERY. BOTH JAY AND BRITTAN THEREFORE URGE THE GOVERNMENT TO BE PREPARED TO CUT PUBLIC SPENDING AS AN AL-

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TERNATIVE MEANS OF AVOIDING EITHER AN INCREASE IN INTEREST RATES OR A WIDENING OF THE CURRENT ACCOUNT DEFICIT.

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INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 AID-05 CIAE-00 EB-07

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FM AMEMBASSY LONDON

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AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

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4. THE CHANCELLOR'S RATHER VAGUE STATEMENT ON FUTURE
MONETARY POLICY ALSO ATTRACTED MUCH COMMENT. RECALL THAT
ALLUDING BOTH TO INDUSTRY'S REQUIREMENTS FOR INVESTMENT
FINANCE AND THE NEED TO HOLD DOWN THE GROWTH OF THE MONEY
SUPPLY, THE CHANCELLOR STATED "I AIM TO SEE THAT THE
GROWTH OF THE MONEY SUPPLY IS CONSISTENT WITH ANY PLANS
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FOR THE GROWTH OF DEMAND EXPRESSED IN CURRENT PRICES. IF IT BECAME CLEAR THAT THIS AIM WERE NOT BEING ACHIEVED. I WOULD BE READY TO USE THE APPROPRIATE MIX OF POLICIES -- NOT NECESSARILY MONETARY POLICY ALONE - TO REDRESS THE SITUATION." SAMUEL BRITTAN INDICATED THAT THE ONLY OTHER POLICIES AVAILABLE WERE A TAX INCREASE OR A CUT IN THE LEVEL OF PUBLIC EXPENDITURE. NEITHER POLICY IS COMPATIBLE WITH STATED GOVERNMENT POSITIONS ON TAXATION AND SPENDING.

5. COMMENT. THUS, IN OUR VIEW, THE PRESS SEES MR. HEALEY AS WALKING ALONG A VERY NARROW PATH WITH A VARIETY OF TREES ON THE VERGE OF FALLING ACROSS IT. IMPLICIT IN THIS LIMITED ROOM FOR MANEUVER ARE SEVERAL POSSIBILITIES. WORLD TRADE MIGHT FAIL TO DEVELOP AS RA-

PIDLY AS EXPECTED; IMPORTS MIGHT RISE MORE SHARPLY IN THE FACE OF RESTOCKING BY INDUSTRY AND THE FILLIP TO CONSUMER DEMAND IN THE CONDITIONAL TAX PACKAGE; THE NEW CASH LIMITS SYSTEM MAY NOT BE AS SUCCESSFUL AS HOPED IN IMPROVING CONTROL OVER GOVERNMENT EXPENDITURE; THE 3 PERCENT WAGE NORM, EVEN IF ACCEPTED, MIGHT NOT HOLD; THE CURRENT PRECIPITATE DROP IN THE VALUE OF STERLING TOGETHER WITH THE CONDITIONAL TAX CONCESSIONS COULD PLACE ADDED PRESSURE ON DOMESTIC RESOURCES, AS DEMAND FOR BOTH IMPORT SUBSTITUTES AND EXPORTS GROWS IN SUM, THERE IS MANY A SLIP TWIXT THE CUP AND THE LIP.

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